

## MINUTES

### SCHOLARSHARE INVESTMENT BOARD October 18, 2002– 2:00 PM – 3:25 PM Teleconference

The meeting was called to order at 2:00 PM by Chair Annette Porini.

Present: Ted Eliopoulos for Philip Angelides, State Treasurer  
Jay Schenirer for Kerry Mazzoni, Office of the Secretary for Education  
Annette Porini for Tim Gage, Department of Finance  
Allison Jones  
Allison Okyle  
Maria Elena Serna

Staff: Carrie Douglas Fong, Executive Director, ScholarShare Investment Board  
Senita Robinson, Manager, ScholarShare Investment Board  
Carla Raffin, TIAA-CREF, Tuition Financing, Inc. (TFI)  
John Middlebrook, TFI  
Tom Noguerola, State Treasurer's Office Counsel

The Chair declared a quorum present.

Ms. Douglas Fong noted a change to the ScholarShare Investment Board June 26, 2002 minutes. The minutes were approved as amended. The minutes from the ScholarShare Investment Board March 12, 2002 meeting were approved as submitted.

#### Item # 3

#### Staff Report

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Ms. Douglas Fong noted that the Governor's Scholarship Programs statistics provided in the written staff report were as of October 7, 2002. She also provided updated program totals for the ScholarShare Program. The total number of accounts opened since inception is 85,339. Total asset value is \$440.6 million and the average account balance is \$5,163.00. Staff fully expects TFI to reach their benchmark of 32,000 new accounts as instructed by the Board.

Ms. Douglas Fong updated Governor's Scholarship Program statistics. As of October 14, 2002, 86,547 Governor's Scholars Awards and 451 Math and Science awards for Test Year 2001 had been claimed. For Test Year 2000, 90,073 Governor's Scholars Awards and 1,293 Math and Science awards had been claimed.

Member Eliopoulos noted that the State Treasurer expects TIAA-CREF to make every effort to reach the benchmark of 32,000 new accounts.

Member Schenirer inquired about the Governor's Scholarship Programs Physics C issue. Staff and counsel have met with Rae Belisle at the Department of Education. While portions of the issue need to be addressed with legislation by the Office of the Secretary for Education, staff is exploring what may be done for the students affected by the change in legislation. At this time, it is unclear whether the Board has the authority to grandfather the affected students. Staff will be updating the Board on this matter at the December Board meeting.

Member Okyle inquired about the amount of funds allocated to the Governor's Scholarship Programs. Ms. Douglas Fong stated that \$28 million has been allocated and staff is working with the Department of Finance to determine the process for transferring the funds.

**Item # 4**

**Approval of Contract with State Treasurer's Office for Administrative Services**

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Each year, the Boards, Authorities and Commissions that have operations at the State Treasurer's Office (STO) enter into a contract with the business services department of STO for administrative services for the upcoming fiscal year. The contract is for services that include, but are not limited to, accounting, budgeting, personnel, business services, and information technology support. The cost to ScholarShare for FY 2002-03 has been determined to be not more than \$125,000.

Member Serna moved that the Board authorize the Executive Director to enter into a contract with the State Treasurer's Office for not more than \$125,000 for administrative services for fiscal year 2001-02. Member Okyle seconded. The motion was approved unanimously.

**Item # 5**

**Maximum Contributions Limit for Golden State ScholarShare  
College Savings Trust for FY 2003**

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Ms. Douglas Fong reported that federal statute allows states to set a single maximum contribution limit. Until earlier this year, the State of California required that the limit be set to reflect the cost of five years of undergraduate school at the most expensive California higher educational facility using age bands. Industry standards include several years of graduate school. A legislative amendment passed earlier this year allows ScholarShare to conform to federal statute. At Staff's request, TFI developed a single limit using methodology similar to that of other states. The new methodology, four years of undergraduate school and two years of graduate school at Stanford University, results in a limit of \$267,580, which is somewhat conservative.

Member Porini asked what methodology other states used to make their limits higher. Mr. Middlebrook explained that some states used the most expensive school nationally, while California used the most expensive school in the state, which is Stanford University. Some states have also used as many as seven years of schooling, including higher tuition rates and room and board that raise their limits to over \$300,000.

Member Jones asked if the methodology is specified in the statute because many students complete more than four years of undergraduate study. Ms. Douglas Fong noted that staff discussed methodology with TFI, Pension Consulting Alliance, and Milliman USA (SIB's actuarial firm), which has developed the methodology for several states and is familiar with IRS requirements and that methodology was based on industry standards and TFI and Milliman's interpretation of what would be acceptable to the Internal Revenue Service (IRS). Member Jones stated that he felt more comfortable with using seven years of schooling, rather than six. Ms. Douglas Fong stated staff and the consultants felt that it was important not to go from being of the states with the lowest limit to one of the states with the highest in one year and that there was a level of risk involved with being too high.

Ms. Okyle asked Ms. Douglas Fong to elaborate on the risks involved with being identified as one of the states with the highest limits. Ms. Douglas Fong noted that the IRS had not issued regulations at this point as to what the highest limit can be. The feeling within the industry is that some of the states with the highest limits are taking a risk that the IRS will issue rulings that may not be favorable to those states. She mentioned that there is at least one state that has a very high limit that is currently being watched by the IRS because there is concern that higher limits are not being utilized for legitimate education expenses, but for wealth transfer.

Member Jones stated that he would feel more comfortable moving forward if the Board agreed to review the contribution limits at a later time. Ms. Douglas Fong noted that staff, TFI, and the consultants feel that is important to review the limits every year because it is a major change.

Member Jones moved that the Board approve the maximum contribution limit of \$267,580 for 2003 and agree to review the amount no less than once annually. Member Eliopoulos seconded. The motion was approved unanimously.

The Board asked that staff and TFI provide updates on any IRS rulings.

## **Item # 6**

### **2002 Marketing Update**

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Ms. Carla Raffin, TFI, provided an update on marketing efforts in relation to the Cerulli Associates recommendations. She noted that TFI expects to be at their target of 32,000 new accounts and highlighted methods that they will use to achieve their goal, including a promotional campaign that includes an offer for a \$50 Barnes & Noble Booksellers gift card.

Member Serna asked if any of the promotions or any advertising had been done in languages other than English. Ms. Raffin answered that time and budget constraints prohibited the campaigns from being in any other language besides English. At this time, TFI is working on Spanish translations of marketing materials and is hopeful that those materials will be in circulation soon. Both Members Okyle and Serna stressed the importance of disseminating ScholarShare materials in languages other than English.

Member Okyle also expressed her opinion that awareness of 529 plans needs to be raised at a local level. Mr. Middlebrook noted that one of the tasks given TFI's public relations firm is to make a more powerful public relations effort to reach out to communities.

Member Okyle also inquired about the possibility of disseminating information to schools. Ms. Raffin stated that it might be possible to email schools with information on the gift card promotion. Member Porini noted that, as was learned from the Governor's Scholarship Programs, not all schools disseminate information efficiently. Ms. Raffin noted that TFI has a list of schools that requested information on ScholarShare earlier in the year and that those schools may be more likely to disseminate the gift card promotion information as well. The Board requested that TFI provide them with the list of schools that requested additional ScholarShare information. Member Okyle asked what TFI was doing in regards to a Spanish language Web site.

Member Schenirer asked if any of the statewide advertising would be done in any non-English newspapers. Mr. Middlebrook replied that only major papers in the top markets had been chosen. He also stated that securities rules make it difficult to advertise in many different languages, which becomes a budgetary issue, because TFI could be forced to supply all program materials in those languages. Member Schenirer expressed concerns that outreach in Spanish was not being done. Mr. Middlebrook noted that TFI has made efforts to reach out to Spanish-speaking communities and the results have been mixed.

The Board will further discuss the issue of outreach to non-English speaking communities at the next meeting. Member Serna also suggested that TFI work with the Student Aid Commission to target more audiences. Member Jones suggested working with Lt. Governor Bustamante's office.

Member Jones asked if TFI had explored other retailers to partner with in the gift card promotion besides Barnes & Noble. Mr. Middlebrook replied that if the November campaign were successful, other options would be explored.

Member Jones also asked when the 2003 marketing plan would be available. Mr. Middlebrook stated that TFI would have the plan available at the next Board meeting in December. Member

Okyle asked that staff make sure the Board is updated in December on issues that have been addressed today.

**Other Business**

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Chair Porini called for public comment. There was none. There being no further business before the Board, the Chair adjourned the meeting at 3:25 PM.

Respectfully submitted by,

Carrie Douglas Fong  
Executive Director, ScholarShare Investment Board